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DB pension plan sponsors facing “bottleneck” in annuities market: expert

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Increased deal-making in the Canadian annuities market is adding pressure to defined benefit plan sponsors seeking to de-risk their plans, says Jason Vary, president of Actuarial Solutions Inc.

“[The market is] getting worse,” he says. “This year, I’ve had some experiences where we’re placing some small annuities, under $5 million, and we really struggled to get the attention of the insurance companies.”

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Vary attributes this challenge to a significant increase in the number of DB plans that have opted to de-risk over the last decade and a limited number of insurers that can accommodate them. While the fourth quarter is typically the busiest time of year for annuities, the market has been busy since the start of 2024, he adds.

According to a report from Telus Health, as of the end of the third quarter of 2024, the Canadian annuities market has already surpassed the total from 2020 ($5.8 billion compared to $4.4 billion). The fourth quarter of 2023 delivered $3.3 billion in de-risking transactions, ending the year with a total value of $7.8 billion.

The report said a convergence of nearly full pipelines from insurers and several large quotes that are anticipated to close before the end of the year will set up a robust year-end finish that may not only meet but potentially exceed projected annual targets.

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"As DB plans become better and better funded, it becomes more affordable for them to buy annuities, to de-risk, to wind up and so that's been driving the volumes [up]," Vary adds. "But it hasn't been overnight, it has been a gradual increase [that] kept [going]."

In addition to the struggles of smaller plan sponsors looking to de-risk, he's also seen difficulties for a bid worth about $40 million, adding this bid was initially met with interest from five insurers but that eventually dropped to two near the bidding day.

These changes have forced Vary and his peers to change their approach to the annuities market and give additional time for insurers to prepare for a bid. "You need to give them two or three months notice [because] a month probably isn't even enough."

Ryan Kastner, chief business development officer at Brookfield Annuity Company, says in the early 2010s the group annuity market was comprised almost exclusively of plan terminations.

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"We started seeing this huge growth in the market of about an extra $1 billion per year, just on voluntary purchases. [Plan sponsors] weren't winding up, they were buying annuities because they wanted to strategically de-risk."

Added complexity now included in annuity transactions has also caused the market to become more difficult to navigate. "Insurers are very mindful of the obligations they take on because it's a long-term commitment both financially and administratively," he says.

In the long term, both Vary and Kastner expect the annuities market to continue growing given the number of DB plans still looking to de-risk.

"The populations within the plans get older and retire and get de-risked, [so] there's more demand coming," Vary adds. "[It] won't last forever . . . . But for sure within the next five or 10 years, the demand should keep going up."

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